

**USAID/Romania**

**Annual Report**

**FY 2004**

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## Romania

### Performance:

The present Government of Romania (GOR) has shown more will and capacity to reform than the previous governments since the 1989 Revolution, and continues to make better use of foreign assistance. The GOR is making important progress toward NATO and EU membership, and the effects of economic growth are beginning to be felt more broadly by ordinary citizens. From a very low base, the economy has grown an average of about five percent for each of the previous three years, and is projected to do about the same in 2004. Other important measures, such as privatization and reform of the energy sector, are moving ahead at a moderate pace.

During 2003, the fight against corruption gathered steam with the passage of new laws aimed at increasing transparency and accountability, and a specialized anti-corruption prosecutor's office was created. These critical steps have helped to lay the groundwork for an invitation to join NATO and support Romania's bid to join the European Union.

USAID assistance has been a significant part of Romania's reform progress. U.S.-funded advisors help draft legislation and implementing regulations. Civil society and business groups who support reforms are provided technical assistance and training. New legislation has been passed in several areas: (1) combating corruption - freedom of information, conflict of interests, and assets disclosure for public officials; (2) increased credit - capital markets; (3) decentralization - municipal bonds; and (4) social issues - anti-trafficking, reproductive health, and child welfare.

Overall, USAID provides assistance to: accelerate private sector growth in a competitive global market environment; develop local democratic governance and civil society; improve child welfare; improve women's health; and combat the spread of HIV/AIDS. A brief summary of Romania's progress in each sector is followed by a summary of the results of USAID's programs.

Romania's Economic Performance: Ceausescu's policies left Romania the poorest country in East Central Europe at the fall of Communism in 1989. Until 2000, much of Romania's economic progress was hampered by slow privatization and stop-and-start economic reform. Under the current government, the macro-economy has made progress. The economy will complete four years of solid growth this year, with 4.5% expected growth in 2003, despite a serious drought. Inflation has declined from 40.7% in 2000 to an anticipated 14.5% this year. Most major privatizations have been completed, with the significant exception of the energy sector.

Despite Romania's progress, the economic situation remains uncertain. Romania remains one of the poorest EU applicants -- almost one in three Romanians lives in poverty. GDP per person reached only \$2,100 in 2002. Although employment has increased, many Romanians remain under-employed. Over 40 percent of the population is engaged in agriculture, most on subsistence plots of land. Many of Romania's young, educated workers continue to leave the country in search of better opportunities. Over 67 percent of Romania's GDP is now produced by private companies. Completing privatization of state-owned commercial assets is a high priority, but privatization advancement is mixed. In October, Romania completed its November 2001 IMF Stand-By Agreement. This was the first successful conclusion of an IMF accord in Romania's history, following six failures.

Since 1999, foreign direct investment (FDI) in Romania has been just over \$1 billion annually, continuing a steady upward trend, with the exception of a drop of 4.4% in 2002. However, both as a total amount and on a per capita basis, FDI is much lower than Romania's neighbors. For example, during 1990-2001, FDI in Hungary totaled more than \$20 billion, versus \$7 billion for Romania during the same period. Most

observers agree that investment, both foreign and domestic, would be larger were it not for Romania's slow and erratic economic reform, an unfriendly business environment, and pervasive corruption.

**USAID Support for Romania's Economic Expansion:** USAID provides economic reform assistance in four areas: speeding up privatization; increasing competitiveness; building institutional capacity for growth; and, improving the policy and legal environment. USAID provides targeted technical assistance to complement economic reform efforts implemented by other donors. Moreover, our assistance to the private sector has leveraged \$1.4 billion from other donors over the past five years, while creating sustained public/private partnerships to expand investments and increase market growth. For example, USAID assistance with agricultural legislation facilitated World Bank approval of an \$80 million loan for the rehabilitation of state-owned irrigation systems and the transfer of those systems to private farmers.

USAID-funded advisors address key legal constraints hampering business development. For example, they drafted a new Fiscal Code and developed anti-money laundering procedures that are now being used at the National Bank and the National Securities Commission. At the Commission, they worked on the securities law for mandatory purchase transactions and drafted new investment, mutual fund, and depository regulations. They also helped finalize the legislation governing electronic commerce and the universal service obligations of the telephone companies. On January 1, 2003, the Romanian telecom market was opened to competition. These reforms have enabled Romania to reach a major milestone and close the Telecommunication Chapter of the EU Accession Agreement.

USAID assistance helped reduce one of the major constraints to small business development, the lack of access to credit, through the provision of over \$8.1 million to the private sector in FY2003. This included \$1.7 million lent to small businesses. Thirty-one percent of this credit benefited women-owned businesses. Another \$2.2 million was lent to 192 new home owners, stimulating the labor-intensive construction industry. USAID-assisted credit unions extended their services to over 10,900 individuals, mobilizing \$2.5 million in savings, and providing \$4.2 million in loans. Grants of \$340,000, made to agricultural producers for new equipment, leveraged another \$460,000 from the producers themselves. USAID helped to create Romania's first private residential mortgage company and attracted \$34 million of lending capital from private sources. The mortgages for houses are rapidly expanding employment in private construction companies. In partnership with local business organizations, USAID helped open micro-credit offices in six new counties and leveraged \$2.9 million of capital from OPIC, the World Bank, and the GOR.

With USAID assistance, the GOR increased its ability to manage the nation's water resources. As a result of a USAID feasibility study and the subsequent pilot project for a water monitoring system, the GOR approved a sovereign guarantee for a \$46 million loan from U.S. EXIM Bank to expand the water monitoring system nationwide. The contract for the national program has been signed with Lockheed Martin and its implementation is underway.

**Democracy and Civil Society in Romania:** Romania has held free and fair elections since 1990. Nevertheless, confidence in democracy is severely undercut by corruption, continuing high levels of poverty, and lack of accountability among public officials to ordinary citizens. Civil society remains weak, with little influence on public policy or on public opinion. Partly as a legacy of communism, the concept of citizenship - including the responsibility of constituent interest and involvement -- has yet to take root among much of the population. This is exacerbated by a "party list" system for parliamentary elections, eliminating any real tie between national level office holders and their constituent districts. In spite of progress on some fronts, significant challenges still remain. The central government is transferring responsibility for many services to local government units without providing the necessary fiscal and management resources. On the whole, there appears to be no coherent plan for decentralization, no roadmap, and no analysis of the impact of decentralization on local governments. Judicial independence and integrity are weak. The frequent collusion between politicians and the courts fuels public cynicism regarding democratic institutions, and discourages investors who fear contracts will not be fairly enforced.

**USAID's Democracy and Civil Society Programs:** USAID democracy assistance focuses on decentralization and improved local governance, anti-corruption measures, strengthening of civil society,

and increased citizen participation in public policy decision-making. This year has been one of transition for our democracy programs. Several stand-alone projects addressing objectives of the previous strategy were completed and we launched the comprehensive Governance Reform and Sustainable Partnerships (GRASP) program, which strengthens local democratic governance and civil society in counties and municipalities. The Opening Politics by Acting Locally (OPAL) program expands the give-and-take between NGOs and local branches of the main political parties. NGOs are helping local party leaders become more attuned to their constituents' problems and develop more issue-related platforms.

The passage of a new Local Public Finances Ordinance, which incorporated USAID's recommendations on sound fiscal decentralization, was a major breakthrough. The ordinance improved local government access to capital markets and established a better redistribution formula for shared national income tax and other funds transferred from the state budget. Fifty USAID-assisted NGOs now participate in strategic planning, implementation, and oversight activities with local authorities. Thirty-one NGOs work with 134 local governments on priority projects identified by citizens. Ten political party branches communicate more effectively with local NGOs and actively advocate for democratic reforms within national parties. NGOs advocate for local government reforms that address citizens' concerns, such as the lack of shelters for victims of domestic violence, the lack of medical personnel in villages, and the need for transparent local budgeting. USAID funds also support a network of public officials from more than 250 local governments which shares best practices and innovative ideas on the following topics: E-Governance and IT systems to improve government services; expanding outreach and capacity of Citizen Information Centers; leveraging external financing for infrastructure projects; and successful practices in social service delivery.

**Fostering GDA-like Partnerships:** The Romanian-American Sustainable Partnership (RASP) program funded 11 partnerships activities between American and Romanian NGOs this year, for a new total of 32 public/private partnerships funded by USAID under this program. These GDA-like partnerships effectively contribute to the development of civil society and complement USAID activities in other strategic areas. For instance, USAID assistance of \$2.7 million has leveraged an additional \$3.2 million from private U.S. sources, Romanian NGOs, and local governments for partnership activities in Romania. Local participatory activities range from supporting informal neighborhood associations aimed at improving housing, education, and general living conditions in Roma communities, to sponsoring community forums and action groups that promote tourism, improve environmental quality, and enhance inter-ethnic relations. Partnerships activities also supported new community services for combating domestic violence. A group of 20 professional mediators, trained by USAID, are now using alternative dispute resolution methods to solve family and community conflicts. Further, a coalition of seven NGOs organized an effective public education campaign for potential victims of trafficking in North-East Romania and provided young victims of trafficking with training as dressmakers to facilitate their economic independence. One partnership drafted an action plan for the development of corporate social responsibility programs in six communities to encourage local businesses to become more involved and responsive in meeting community needs.

**Child Welfare, Women's Health and HIV/AIDS in Romania:** The health and child welfare situation in Romania remains fragile. Life expectancy at birth is 71 years, one of the lowest in Europe. Romania's infant mortality, under-five mortality, and maternal mortality are among the highest in Europe. Indeed, in 2000, maternal mortality rates were six times the EU average. Romania has the largest number of pediatric AIDS cases in Europe, and more than 34,000 children still live in state-run institutions. The child welfare system still lacks adequate community preventive services, day care centers, maternal shelters, and specialized support services for children with special needs or for youth who leave institutions. HIV/AIDS prevalence continues to rise, and without a sustained prevention program, the rate will accelerate as the number of infections in high-risk groups increases.

Romania is drafting new legislation to regulate the child welfare system and adoption. Romanian legislation on health financing is weak and conducive to waste and inefficiency. The system requires a switch from an over-emphasis on hospital care and specialized services to one in which basic health services are provided in the least-cost primary care setting.

USAID's Child Welfare, Women's Health, and HIV/AIDS Programs: In the social sector, USAID assistance is creating community child welfare, reproductive health and infectious disease services, which are more beneficial to recipients than costly institutional care and are more affordable to the Government of Romania. While Romania's overall health statistics remain poor, the country is moving in the right direction.

During the past year, USAID assistance has contributed directly to: the reduction of the number of children in institutional care by 8,550 (17%); the closing of 43 institutions with more than 50 children each, creating over 200 alternative community services; the drafting of legislation to govern standards for adoption; and implementation of life skills training for youth, child welfare case management, and procedures to follow up on cases of child abuse and neglect. Mayors from all of Romania's 41 counties have been trained in child welfare services. We have obtained over \$3 million from business and local public services, and another \$6 million from governmental programs to close institutions for disabled children - partnership programs that are being implemented for the first time through Romanian NGOs.

This good news is an incomplete story, however. The child welfare system still lacks adequate community preventive services, day care centers, maternal shelters, and specialized support services for children with special needs or for youth who leave institutions. USAID is the only major donor that supports decentralizing the child welfare system to the community level. Information about children in the welfare system is still incomplete and unreliable. USAID is assisting with the development of an efficient national child tracking system that will provide dependable information upon which to base decisions affecting children.

USAID has assisted the GOR to develop and implement a national reproductive health strategy. USAID advisors are integrating reproductive health services into 1,740 primary care clinics, of which three-quarters are in rural areas. USAID supported successful national campaigns about unwanted pregnancy, reproductive health services, early detection of breast cancer, the prevention of HIV/AIDS, sexually transmitted infections, and the fight against discrimination toward HIV/AIDS victims. Romanian legislation on health financing is still weak and is conducive to waste and inefficiency. USAID is facilitating a change from an over-emphasis on hospital care and specialized services to one in which basic health services are provided in the least-cost primary care setting.

HIV/AIDS prevalence continues to rise. Therefore sustained prevention programs are needed. Romania received a grant of \$38 million from the Global Fund to Fight AIDS, Tuberculosis, and Malaria and we assist key stakeholders develop a strategy for program implementation. During FY03 three targeted campaigns for hard-to-reach populations, including Roma and the rural poor, and those at high risk of contracting HIV/AIDS were completed. HIV/AIDS activities also included a media guide, a social marketing program, a voluntary counseling and testing program, and outreach to both the general population and high-risk groups. Several campaigns which had lasted one day in previous years have been extended to last a month in some cases. The December 2002 AIDS campaign "Open Your Eyes! Open Your Heart!" reached 92,000 young people in 10 cities. HIV educational programs and public announcements have been viewed by eight million people (one-third of the Romania population) on four national TV channels.

**Country Close and Graduation:**

## **Results Framework**

### **186-0130 Accelerated Private Sector Growth by Supporting a Market-Driven Environment**

#### **SO Level Indicator(s):**

Number of Micro, Small and Medium size Enterprises in acting in the formal market

Percent of GDP generated by the private sector

**1.3.1** Improved policy, legal and regulatory framework supportive of market expansion

**1.3.2** Strengthened institutional capacity of private sector associations, GOR counterparts, and Business Support Organizations to serve market economy goals

**1.3.3** Improved competitiveness of private sector's companies and markets

**1.3.4** Improved process of transferring state-owned assets to private ownership

### **186-0140 A More Competitive and Market-Responsive Financial Sector**

### **186-0150 A More Economically Sustainable and Environmentally Sound Energy Sector**

### **186-0160 Increased Environmental Management Capacity to Promote Sustainable Economic Growth**

### **186-0210 Increased, Better-Informed Citizens' Participation in Political and Economic Decision-Making**

### **186-0230 Improved Democratic Governance at Local Level**

#### **SO Level Indicator(s):**

Number of USAID-assisted local government units that have significantly increased the percent of their program budget spent on services identified by citizens

**2.3.1** Adequately funded, service oriented local government units

**2.3.2** Improved interaction between citizens and local public institutions

### **186-0320 Improve the Welfare of Children and Women in Romania**

### **186-0340 Improved Effectiveness of Selected Social and Primary Health Care Services for Targeted Vulnerable Groups**

#### **SO Level Indicator(s):**

Child Institutionalization Rate

Contraceptive Prevalence Rate (Abortion Rate is used as proxy indicators in years when CPR is not available)

Proportion of children in state welfare system receiving at least one alternative community service

**3.4.1** Improved legal, regulatory, and policy framework

**3.4.2** Improved mobilization, allocation, and use of social sector resources

**3.4.3** Increased access to quality integrated services

**3.4.4** Citizens better informed about social services, rights and responsibilities

### **186-0420 Cross Cutting Programs**